

STATE OF LOUISIANA LEGISLATIVE AUDITOR

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Military Department
Executive Department
State of Louisiana
New Orleans, Louisiana

January 6, 1999



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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**MILITARY DEPARTMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA
New Orleans, Louisiana**

Management Letter
Dated November 24, 1998

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and New Orleans offices of the Legislative Auditor.

January 6, 1999



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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November 24, 1998

**MILITARY DEPARTMENT
EXECUTIVE DEPARTMENT
STATE OF LOUISIANA**
New Orleans, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1998, we conducted certain procedures at the Military Department. Our procedures included (1) a review of the department's internal controls; (2) tests of financial transactions for the years ending June 30, 1998 and 1997; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 1998 and June 30, 1997; and (4) a review of compliance with our prior report recommendation.

The 1997 and 1998 Annual Fiscal Reports of the Military Department were not audited or reviewed by us, and, accordingly, we offer no form of assurance on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and other selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior report on the Military Department, we reported findings relating to federal financial reports, cash management, timely request for reimbursements, and weaknesses in electronic data processing controls. Those findings have been resolved by management.

Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Inadequate Controls Over Movable Property

The Military Department did not maintain adequate internal controls over movable property as prescribed by Louisiana law and departmental policies. Louisiana Revised Statute (R.S.) 39:324(B) requires that all movable property be tagged and entered into the state's movable property master listing within 45 days of receipt of the movable property. Adequate internal controls also require that procedures be in place to ensure that (1) the acquisition, valuation, and disposition of movable items are accurately reflected in the accounting records; (2) the amounts reported in the department's financial statements are materially correct; and (3) property reports generated by the Louisiana Property Assistance Agency (LPAA) are reviewed for accuracy. Furthermore,

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the department's policies and procedures require that an approved Property Control Form 1 be completed and submitted to the property manager before any action is taken on state movable property.

The following deficiencies in the department's internal controls over movable property were noted:

- The department did not perform a reconciliation between acquisitions recorded in its property control system and acquisitions recorded in its accounting records (general ledger).
- None of the ten movable property dispositions examined were supported by the Property Control Form 1, which is required to be completed before disposing of movable property.
- No evidence was found that monthly property reports generated by the LPAA were reviewed for accuracy.
- The value of movable property reported in the department's Annual Fiscal Report at June 30, 1997, was actually the value of movable property at May 30, 1997.
- Of 26 movable property acquisition vouchers tested for fiscal years 1997 and 1998, 25 acquisitions, totaling \$18,251, had not been added to the movable property records as of February 28, 1998, or 112 to 495 days after acquisition. In addition, 25 computers, totaling \$21,500, purchased for the department's Youth Challenge Program and received by the department on June 30, 1997, were not added to the movable property records as of March 6, 1998. As a result of untimely recording of these items in the movable property records, the movable property value reported by the department at June 30, 1997, was further misstated (understated) by \$32,525.

These deficiencies occurred because the department has no procedures in place to reconcile its movable property acquisition records to its acquisitions recorded in its general ledger, and the property manager did not follow the department's movable property policies and procedures.

Because of these deficiencies, management of the department cannot provide reasonable assurance that movable property is adequately safeguarded, that accountability is maintained, and that errors or fraud is detected within a timely period.

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EXECUTIVE DEPARTMENT
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Management of the Military Department should establish procedures to periodically reconcile its movable property acquisitions to its acquisitions recorded in its general ledger. In addition, management should ensure that the department's existing movable property policies and procedures are followed consistently to comply with state movable property regulations and to provide for proper accountability and reporting of movable property. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1 and 2).

Improper Procurement Practices

The Military Department engaged in procurement practices contrary to state purchasing laws and regulations. R.S. 39:1596 provides that any procurement not exceeding the amount established by executive order of the Governor may be made in accordance with small purchase procedures prescribed by such executive order (Executive Order 98-20), except that purchases cannot be artificially divided so as to constitute a small purchase. R.S. 39:1594(A) provides that contracts exceeding small purchase requirements be awarded by competitive bidding. A test of 27 nonpayroll disbursements disclosed 13 purchases for the Army National Guard - Civilian Youth Opportunities Program (CFDA No. 12.401) that did not follow proper procurement practices as follows:

- Three purchase orders, totaling \$798, were processed for similar items from the same vendor on the same day. The purchase was made in three stages, reducing the amount below the \$500 level requiring telephone or facsimile quotes from at least three bona fide bidders.
- Two purchase orders, totaling \$992, were processed for identical items on the same day from the same vendor. The purchase was made in two stages, reducing the amount below the \$500 level requiring telephone or facsimile quotes from at least three bona fide bidders.
- Six purchase orders, totaling \$26,769, were processed for similar items from the same vendor within two days. The purchase was made in six stages, reducing the amount below the \$10,000 level requiring approval from State Purchasing and competitive bidding.
- Two purchase orders, totaling \$594, were processed for similar items on the same day from the same vendor. The purchase was made in two stages, reducing the amount below the \$500 level requiring telephone or facsimile quotes from at least three bona fide bidders.

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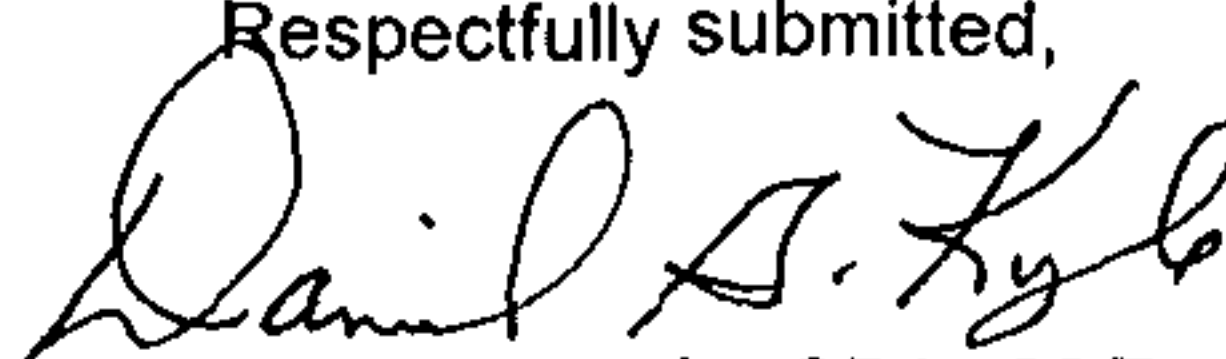
These conditions exist because management at the department thought it was exempt from following procurement practices because of the nature of the Civilian Youth Opportunities Program. However, management could not provide evidence of this exempt status. The State Purchasing Office did grant the Military Department the authority to bypass state contracts when procuring clothing for the program, but stated that all purchases must be made in accordance with purchasing rules and regulations. Since the department did not comply with purchasing laws, the department cannot be assured that the best prices were obtained.

The Military Department should ensure that all purchases are made in compliance with state purchasing regulations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 3 and 4).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. Findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

This report is intended for the information and use of the department and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with the first name "Daniel" being the most prominent part.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

LOC:THC:RCL:ss

[MILITARY]

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



STATE OF LOUISIANA
MILITARY DEPARTMENT
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JACKSON BARRACKS
NEW ORLEANS 70146-0330

M.J. "MIKE" FOSTER, JR.
GOVERNOR

BENNETT C. LANDRENEAU
MAJOR GENERAL
THE ADJUTANT GENERAL

July 7, 1998

Dr. Daniel G. Kyle, CPA, CPE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Inadequate Controls – Moveable Property, 1998

Dear Dr. Kyle:

Again, we appreciate the audit scope in this area, and Ms. KaKenya Collins, CPA, due diligence. We concur with those deficiencies related to Moveable Property Controls and provide the following resolutions.

Information Technology will once again play an integral role in the monthly reconciliation between state property system and general ledger control accounts. This reconciliation will be performed independently of State Property Manager.

Likewise, effective 1 July 1998, a specific object detail will be used to identify and segregate state and federal property acquisitions for control purposes. Also, management is currently reengineering this business process to improve organizational structure and staffing levels. Currently, our proposed strategy will provide a property specialist at each of our three major customer transactions sites (Jackson Barracks-New Orleans, Office Emergency Preparedness/Carville Project-Baton Rouge, and Camp Beauregard-Pineville).


Additionally, we have established improved control policies and procedures designed to improve Asset Management. They include areas related to segregation of duties, enhanced asset classes and accountability, and monitoring activities. Among those procedures are periodic reviews and inventories; delegation and segregation of equipment tagging into acquisitions less than \$250 dollars and those above \$250 dollar threshold; and increased monitoring of property acquired and its disposition thereafter. Moreover, a physical inventory was conducted of moveable property and valuation established in accordance with Louisiana Statutes Revised 39:324.

Re: Inadequate Controls -- Moveable Property, 1998

Effective 1 July 1998, the above policies and procedures were implemented and operating as planned. Major Keith Kingston, State Property Manager located at Jackson Barracks in New Orleans, LA, is the responsible manager for above actions (504-278-8361).

In our opinion, implementation of these policies and procedures related to "Internal Controls over Movable Property" will provide reasonable assurances for the safeguarding of public assets.

Sincerely,


Michael C. Appe
Colonel, Louisiana Army
National Guard
Director, State Resources

mnm

cc: Audit File
COL R. Moore
LTC D. Falanga
LTC D. Burgess



STATE OF LOUISIANA
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July 7, 1998

Dr. Daniel G. Kyle, CPA, CPE
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: Improper Procurement Practices, 1998

Dear Dr. Kyle:

Thank you for the opportunity of working with Ms. LaKenya Collins, CPA, of your office in the conduct of our recent audit. We appreciate her thoroughness and professionalism. We do concur with your findings and want you to know that there were certain extenuating factors relative to purchasing policies that had been approved by previous administrations for Youth Challenge Program (YCP), that contributed to these errors.


Through use of Information Technology, requisitioning units activity will be managed and approved by pipelining data into an Information System Database, to ensure compliance with Louisiana Revised Statutes 39:1594 (A) and 39:1596. Likewise, management is continuing a self-assessment to redefine this business process and determine appropriate organizational structure and staffing levels. Also, we are continuing to improve authorization controls and scheduling periodic reviews independent of the purchasing activities. Furthermore, as suggested by American Institute of Certified Public Accountants (AICPA), the purchasing officer responsibilities are currently being redefined.

Effective 1 July 1998, the above procedures were implemented and are operating as planned. Colonel Robert Moore, Directorate State Resources - Manager, Camp Beauregard Site-Support located in Pineville, LA, is the responsible manager for these actions (318-641-3330).

Re: Improper Procurement Practices, 1998

In our opinion, these requisitioning and authorization procedures, will provide reasonable assurances for the purchasing attestations.

Sincerely,


Michael C. Appe
Colonel, Louisiana Army
National Guard
Director, State Resources

mm

cc: Audit File
COL R. Moore
LTC D. Falanga
LTC D. Burgess